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1996 *annual* report



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HIGHLIGHTS

CORPORATE:

- Class A common shares listed on The Alberta Stock Exchange
- Net proceeds of \$1.6 million on issue of flow through special warrants
- Net proceeds of \$10 million on issue of special warrants in February 1997

CANADA:

- Lyons Creek Gas Plant at Supreme commenced production
- Additional drilling resulted in second gas discovery at Robsart
- Land holdings increased by 14,792 net acres
- Robsart Gas Plant installed with production started in March 1997

KAZAKSTAN:

- All requirements met for re-entry of first KTT well
- Reserves in Kamen field accepted as part of development area
- Re-entry of Teplov #74 commenced January 1997

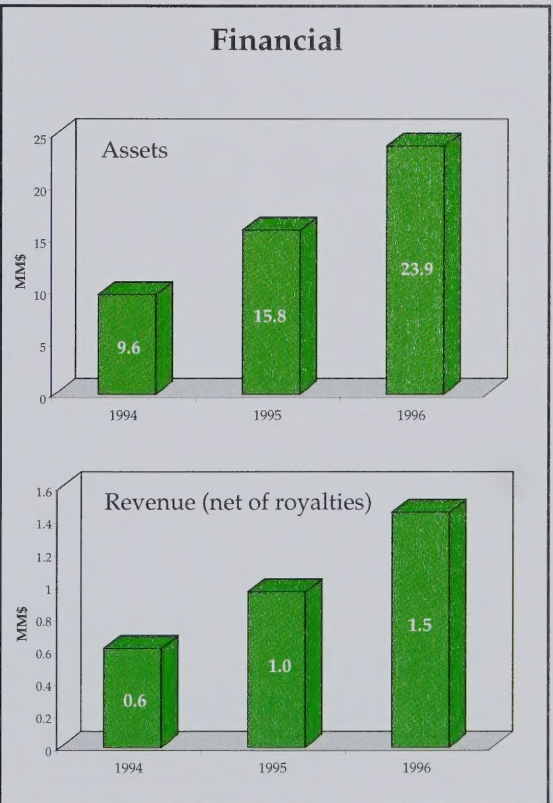
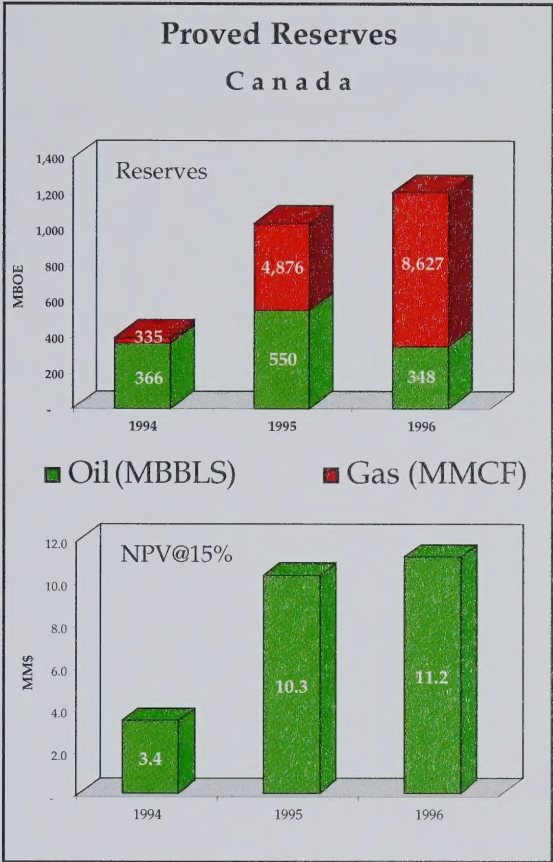
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Abbreviations

MCF	Thousands of cubic feet
MMCF	Millions of cubic feet
MMCF/D	Millions of cubic feet per day
BCF	Billions of cubic feet
BBLs	Barrels
MBBLS	Thousands of barrels
MMBBLs	Millions of barrels
BOPD	Barrels of oil per day
BPD	Barrels per day
MMBPD	Millions of barrels per day
BOE	Barrels of oil equivalent
MBOE	Thousands of barrels of oil equivalent
MM\$	Millions of dollars

Note: All financial amounts in Canadian dollars unless otherwise noted



CORPORATE PROFILE

Snow Leopard Resources Inc. ("Snow Leopard" or the "Company") is a Calgary based oil and gas exploration and development company that is poised for significant production growth in both Saskatchewan and Kazakhstan. The Company was incorporated on November 30, 1990 and commenced operations March 1, 1993. Cash flow has been established from oil and gas production in Canada, while internationally the Kamen/Teplov-Tokarev ("KTT") project development continues.

In October 1996, the Company initiated sales from the Supreme Field, its first southwest Saskatchewan shallow gas discovery. A second gas facility was placed on stream at Robsart in March 1997 with a third planned for the fall of 1997. These 100% owned and operated facilities will substantially increase the Company's gas production. In southeast Saskatchewan, Snow Leopard has oil production in the Parkman and Hartaven fields which averaged approximately 140 BOPD in 1996. At December 31, 1996 the Company had accumulated 101,385 gross (84,792 net) acres of mineral rights to support development and exploration activities. As of December 31, 1996 the Company held an interest in 6 producing oil wells (4 net), 4 producing gas wells (4 net), 4 shut in oil wells (3 net) and 17 shut in gas wells (15.5 net). Three of these shut in gas wells plus 2 gas wells drilled in January 1997 were tied in and put on production in March. Drilling in January also delineated additional areas which are planned to be developed in 1997 and 1998.

In Kazakhstan, the first well re-entry in the KTT project commenced in January 1997. Initially the oil zone will be evaluated to provide performance and fluid information to determine the specifications for an Early Production System. An extended testing period through the spring of 1997 is planned. During 1996, a reserve assessment report on the Kamen field was approved by the State Committee on Reserves. Certification of these reserves allows the Kamen field to be designated as an additional development area in the KTT project.

The Class A common shares of Snow Leopard are listed on The Alberta Stock Exchange, under the trading symbol SNW.A.

NOTICE OF ANNUAL MEETING

The Annual Meeting of the Shareholders will be held at 10:00 AM on Thursday, May 29, 1997 at the Company's registered office located at Suite 3200, 421 - 7th Avenue S.W., Calgary, Alberta.

To the Shareholders:

CHAIRMAN'S LETTER

During 1996, your Company continued to make significant progress.

Snow Leopard's Canadian operations were very active and successful. The Company's first gas production commenced in October through the Lyons Creek Compressor Station located in the Supreme Field in southwest Saskatchewan at 3 MMCF/D. Additional drilling in 1997 is expected to increase the facility throughput to 6 MMCF/D.

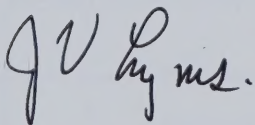
Drilling in 1996 resulted in a second gas discovery in the Robsart area, located north of the Supreme discovery. A compressor installed at this location commenced production in March 1997 at 4.5 MMCF/D.

Exploration drilling in early 1997 has extended the Robsart gas trend. The Company intends to further develop these additional reserves with third quarter 1997 drilling and the installation of a third compressor.

As a result of these achievements, production and cash flow from operations has increased and our reserve volumes and values have been substantially enhanced.

Internationally, in Kazakstan the re-entry of Teplov #74 commenced on January 17, 1997. The objective is to recomplete the well in the oil zone. Extended testing through trial facilities and the installation of an Early Production System is planned for 1997.

I would like to extend sincere thanks on behalf of myself and the rest of Snow Leopard's executive team to the employees for their hard work and loyalty, and to the shareholders for their commitment and support during a challenging but productive year.

A handwritten signature in black ink, appearing to read "J. Verne Lyons".

J. Verne Lyons
Chairman and President

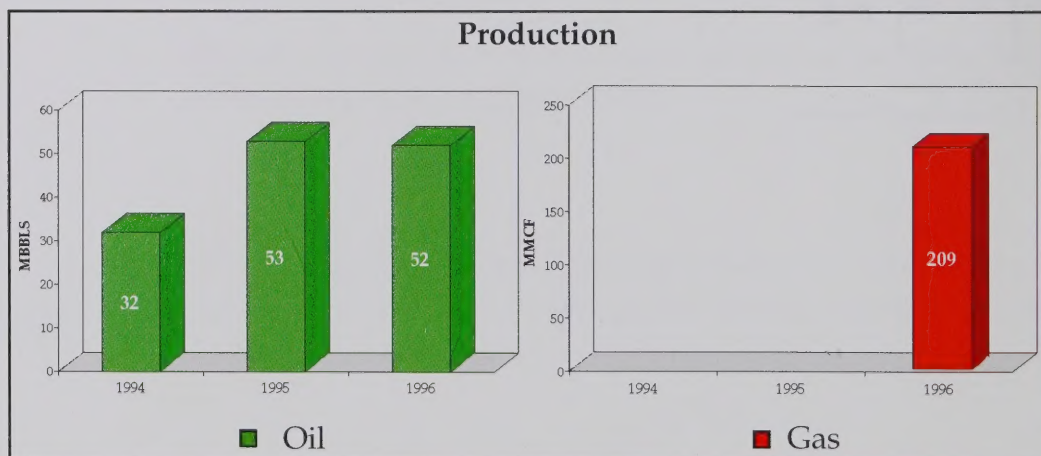
CANADIAN OPERATIONS

Snow Leopard's domestic exploration and development operations are located in Saskatchewan. Principal exploration focus in 1996 was gas in southwest Saskatchewan. With the completion of two gas processing facilities and continued oil production, 1997 exploration focus will expand to include deeper Jurassic and Mississippian oil prospects.



The land base as of December 31, 1996 was 101,385 gross (84,792 net) acres which supports the exploration and development activities. In 1996, the Company increased net land holdings by 14,792 acres and our aggressive land acquisition policy will continue in 1997 through Crown land sales, farm-ins and land swaps.

Drilling to December 31, 1996 resulted in 32 (27.5 net) cased wells, including 6 gross (4 net) producing and 4 gross (3 net) shut in oil wells, 4 gross (4 net) producing and 17 gross (15.5 net) shut in gas wells and 1 gross (1 net) service well. The Company's non-producing oil and gas reserves are well positioned, lying within 2 to 12 miles from existing gathering, transmission and processing facilities.



Snow Leopard added substantial natural gas reserves in 1996 through exploration, field development and processing facility installations. Drilling of 12 wells in 1996 and January 1997 resulted in 11 successful gas wells.

SOUTHWEST SASKATCHEWAN

The Supreme Field commenced production in October 1996 at 3 MMCF/D. This field is located on 8,800 acres of land and includes 4 producing wells, a gas processing facility and 3 shut in wells. All of these are owned 100% by Snow Leopard. The processing facility is tied into the TransGas pipeline system by a 7 mile sales gas pipeline. Drilling planned for 1997 is expected to maximize the compressor capacity of 6 MMCF/D. Gas production is currently being sold under contract with the gas price based on 30% short term and 70% long term prices. McDaniel & Associates assigned the field proved and probable reserves of 6.3 BCF of gas as of November 1, 1996.

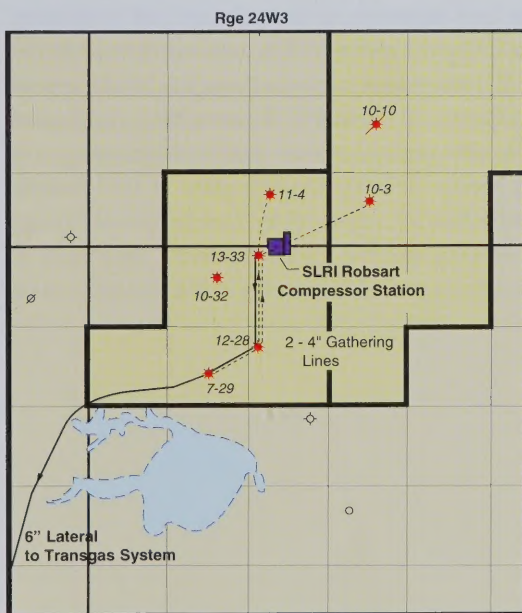
Supreme Gas Field



Snow Leopard Resources Inc. Lyons Creek Compressor Station in the Supreme Gas Field

In September 1996 the Company drilled the Robsart Field discovery well at 12-28-4-24 W3M. In the area, the Company has approximately 22,600 acres of 100% working interest lands.

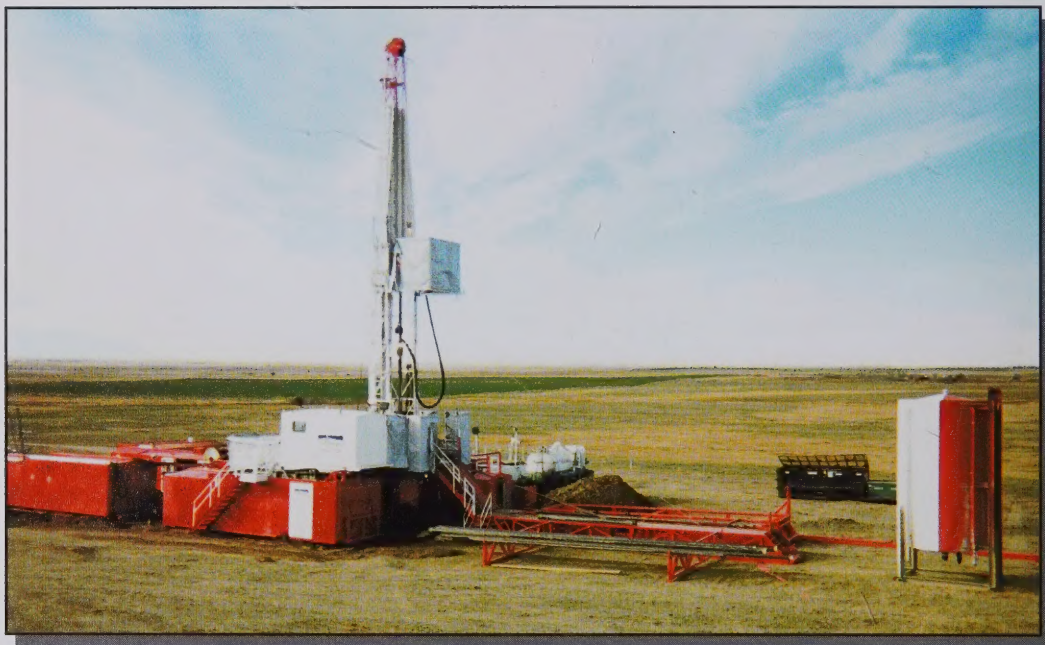
Robsart Gas Field



^{T5} Based upon the discovery well, five follow up wells were drilled which delineated a commercial gas field. McDaniel & Associates assigned the Robsart Field proved and probable reserves of 6.4 BCF as of November 1, 1996. These reserves do not include two gas wells drilled in 1997. A three stage compressor was purchased and a pipeline/
^{T4} gathering system was installed in February 1997. This gas processing facility

came on stream in March 1997 and production commenced at 4.5 MMCF/D. The productive capacity of the wells exceeds the plant capacity of 6 MMCF/D. This facility is tied into the TransGas pipeline system by a 12 mile sales gas pipeline. In January 1997 five gas wells were drilled in Robsart and adjacent areas, all of which were successful.

The Company owned 74,283 net acres in southwest Saskatchewan at December 31, 1996 and intends to maintain the momentum gained from the 1996 exploration successes to generate more shallow gas discoveries on these and other acquired lands. In particular, the Company is continuing to explore for shallow gas in southwest Saskatchewan and in 1997 intends to develop additional fields.



Champion Rig #38 drilling Southwest Saskatchewan gas wells

SOUTHEAST SASKATCHEWAN

Parkman

The Parkman area of southeast Saskatchewan is the principal oil producing property for Snow Leopard. The Company owns a 100% working interest in 960 acres and operates 3 gross (3 net) wells which produce from the Mississippian Tilston carbonate at an average 1996 rate of 131 BOPD. These wells were located using 3-D seismic survey shot in 1994 and the geophysical interpretation was responsible for the 100% drilling success in 1995. Drilling plans in 1997 include two additional wells to be drilled following approval by Saskatchewan Energy and Mines of a reduced well spacing for the Parkman field. McDaniel & Associates assigned the field proved and probable reserves of 588,810 BBLS of oil as at November 1, 1996.

The Hartaven area lies about 50 miles west of the Parkman field where the Company operates one oil well producing from the Mississippian Frobisher and Kisbey formations at a rate of 10 BOPD. The Company owns a 100% working interest in 597 acres, a battery and a salt water disposal well. Surplus fluid processing capacity of the facility makes future development drilling on the property attractive. In the interim, custom treating and water disposal from nearby operators in the area provides additional revenue from the property.

Hartaven

PROVED RESERVES

Changes to Company Share of Reserves (after royalties)	Proved Reserves	
	Oil (MBBLS)	Gas (MMCF)
December 31, 1994	366	335
Discoveries and extensions	388	4,471
Production	(43)	—
Revisions of prior estimates	(161)	70
December 31, 1995	550	4,876
Discoveries and extensions	—	4,313
Production	(39)	(188)
Revisions of prior estimates	(163)	(374)
December 31, 1996	348	8,627

In southeast Saskatchewan, the Company is continuing exploration for oil in the Jurassic Vanguard, the Shaunavon and the Mississippian Madison group. In 1996 the Company's focus was to develop southwest Saskatchewan shallow gas reserves, which has delayed exploration drilling of southeast Saskatchewan oil prospects.

FUTURE EXPLORATION FOCUS

The principal exploration focus in 1997 will remain in Saskatchewan and will expand from established core areas. Snow Leopard will continue to conduct geological and geophysical assessments and drill wells to ensure efficient and complete evaluation of the Company's current lands, adjacent farm-in and crown lands. The Company believes considerable potential for new gas and oil plays exist in Saskatchewan and intends to vigorously pursue these plays. Land is being assembled on several of these new areas for development in late 1997 and 1998.

KAZAKSTAN OPERATIONS

Overview

Snow Leopard continues to focus on the Peri-Caspian Basin which holds Kazakhstan's largest oil and gas potential, estimated in the International Petroleum Encyclopedia at 60 billion barrels of oil, 20 billion barrels of condensate and over 300 trillion cubic feet of gas. At present, the Company has two projects under technical assessment in this prolific region.

Kazakhstan has the potential to become one of the world's most significant petroleum regions. Transportation and the ability to get the product to world markets is its primary challenge. Being land locked with limited export routes, Kazakhstan and other Central Asian states have historically been fully dependent on the use of Russia's pipeline system.



Northwest Kazakhstan

Overview

(continued)

In Kazakhstan there is relative political stability. Significant progress is being made in expanding transportation systems and the investment climate is strengthening. Oil exports are increasing, bringing more hard currency, opening more trade relationships and providing new markets for Kazakhstan.

Kazakhstan is seeking to attract significant foreign investment. Through privatization, over the next two years, the Kazakhstan government plans to sell all of its refining companies and several oil and gas producers to private investors including foreign oil companies. This process of privatization has commenced.

Several large companies have recently joined projects in Kazakhstan. Mobil obtained a 25% interest in the Tengiz oil field. British Gas and AGIP have transferred a 20% share of the giant Karachaganak field to Texaco. Amoco has recently signed an agreement to join the Caspian Pipeline Consortium. This agreement allows them to ship 60,000 BPD through the pipeline. Amoco has also been awarded two upstream projects and is negotiating on several other projects.

The increasing good relationships between the Republic of Kazakhstan and the Russian Federation has significantly increased exports through Russian territory to Europe. On December 6, 1996 participants in the Caspian Pipeline Consortium signed an agreement finalizing their respective interests in the project. The major companies involved are Chevron, Lukoil, Mobil, Amoco, Rosneft/Shell, AGIP and British Gas. Crude oil exports from Tengiz to the Black Sea are expected to commence in late 1999. This pipeline will have capacity over 1 MMBPD when completed. Other pipeline projects being considered include a gas pipeline to develop the Karachaganak field in Northwest Kazakhstan and the Kumkol oil pipeline linking Kazakhstan's western oil fields to the refineries and consumer markets in the eastern part of Kazakhstan. An oil-swap agreement with Iran has come into effect. The first cargo of Kazak crude was shipped across the Caspian Sea on January 13, 1997 from the port of Aktau to Neka, on the Iranian coast. Several other export options remain including through Turkey, Pakistan and China.

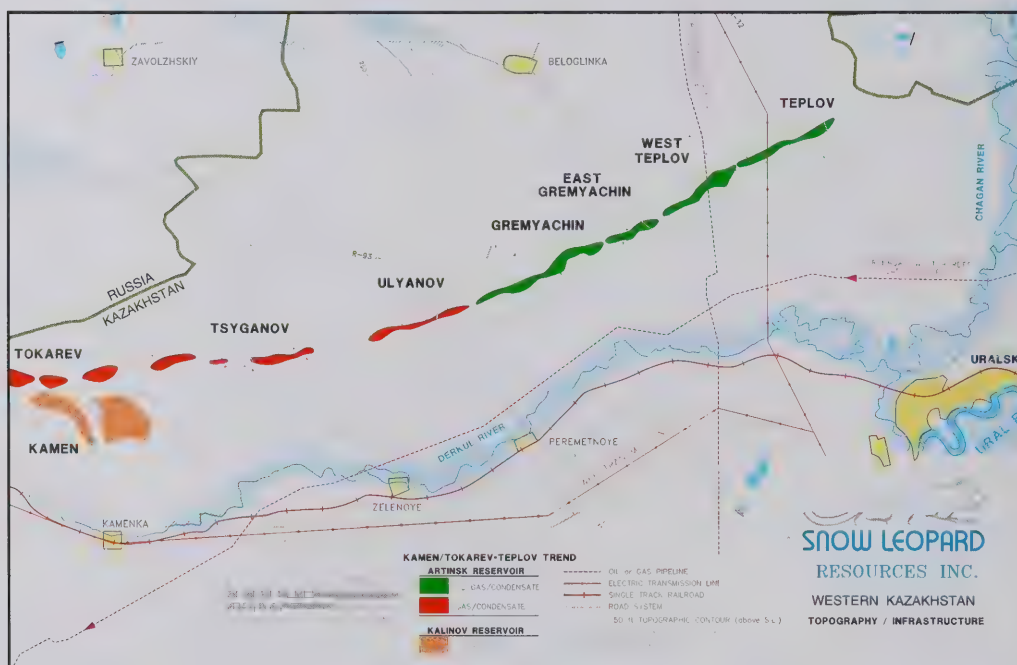
Kamen/Teplov-Tokarev

Background

Snow Leopard's activities in Kazakstan are conducted through Stepnoi Leopard, Ltd. ("Stepnoi"), a limited liability company, formed by Snow Leopard (50%), Uralskneftegasgeologia ("UNGG") (25%), a Kazak company responsible for oil and gas exploration, and Kazakgas (25%), the Kazakstan state holding company responsible for natural gas production, marketing and distribution.

Stepnoi has a Hydrocarbon Appraisal, Development and Production Contract ("Hydrocarbon Contract") with the Government of Kazakstan. The Hydrocarbon Contract includes licenses which provide Stepnoi with exclusive rights for the development of the Teplov-Tokarev trend of seven oil, gas and gas condensate fields and for the appraisal of the Kamen gas field. Collectively, these eight fields are known as "KTT". KTT is located in Northwest Kazakstan, approximately 25 kilometres northwest of the city of Uralsk.

McDaniel & Associates have estimated the proven undeveloped reserves of KTT to be 660 BCF of natural gas and 39 MMBBLS of condensate and crude oil. The net present value of these reserves, discounted at 15% and after all taxes and payments included in the Hydrocarbon Contract and capital expenditures, is estimated to be US \$98 million.



Kamen / Teplov-Tokarev Area

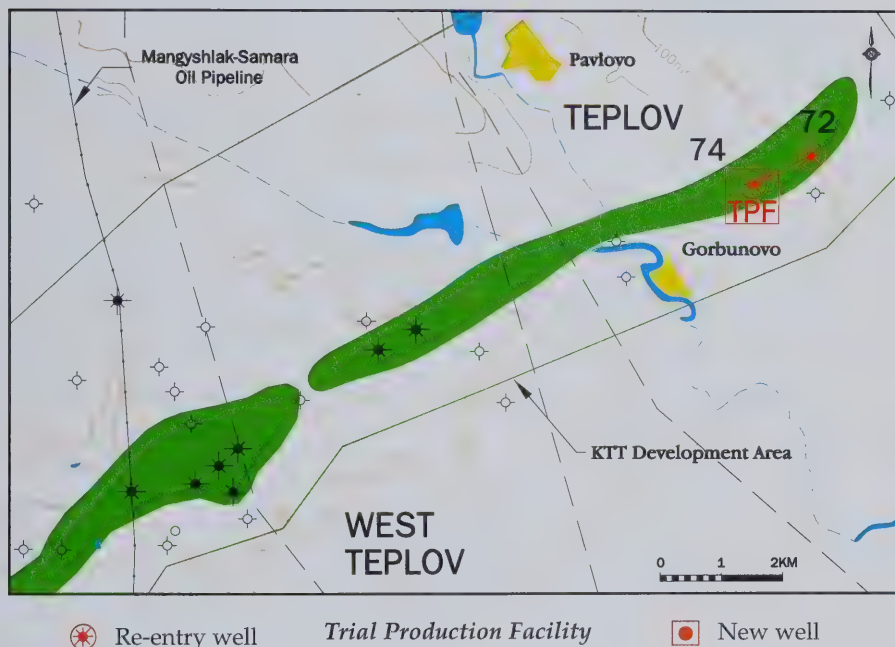
In early 1996, Snow Leopard decided to proceed with additional testing of existing suspended wells. In March 1996, Stepnoi signed an agreement with UNGG to use locally available equipment for this activity. A new American built service rig was selected as the most appropriate for our needs. It was installed on our first location, Teplov #74. This well was tested in 1990 by UNGG at over 25 MMCF/D of natural gas and 1,500 BPD of liquids from 5 perforated intervals

totalling 45 metres within a reservoir section exceeding 100 metres in thickness. Snow Leopard required western insurance for the re-entry operation. This resulted in a “fit for purpose” survey by the London based EMCA inspection organization at the request of the insurance underwriters. The recommendations of EMCA were implemented and the insurance was placed in early 1997.

Kamen/Teplov-Tokarev

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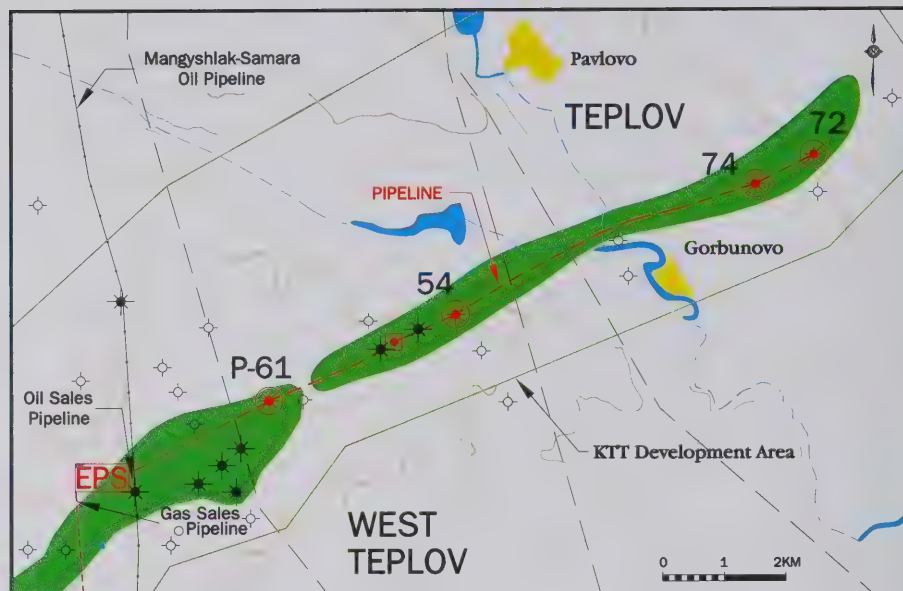
Downhole work on Teplov #74 commenced on January 17, 1997 with re-perforation occurring in March. With positive results, this will lead to extended flow testing in the spring of 1997 and Trial Production Facilities (“TPF”) expected to be placed on production in the summer of 1997. In addition, a second re-entry at the nearby well Teplov #72 could expand the TPF operation in 1997.



An Early Production System (“EPS”), expected to be located on the Mangyshlak-Samara crude oil export pipeline in the West Teplov Field, is under consideration. This facility is expected to be designed to provide continuous sales of 20 MMCF/D of natural gas and 3,000 BPD of liquids. This phase is expected to include Teplov #74 and #72 and the re-entry of other existing wells or the drilling of new wells, if necessary, to attain sufficient deliverability. This phase will include the construction of tie-in lines from the existing wells to the EPS and sales pipeline connections for both oil and gas. The EPS is expected to be a self contained processing unit to be supplied from the west.

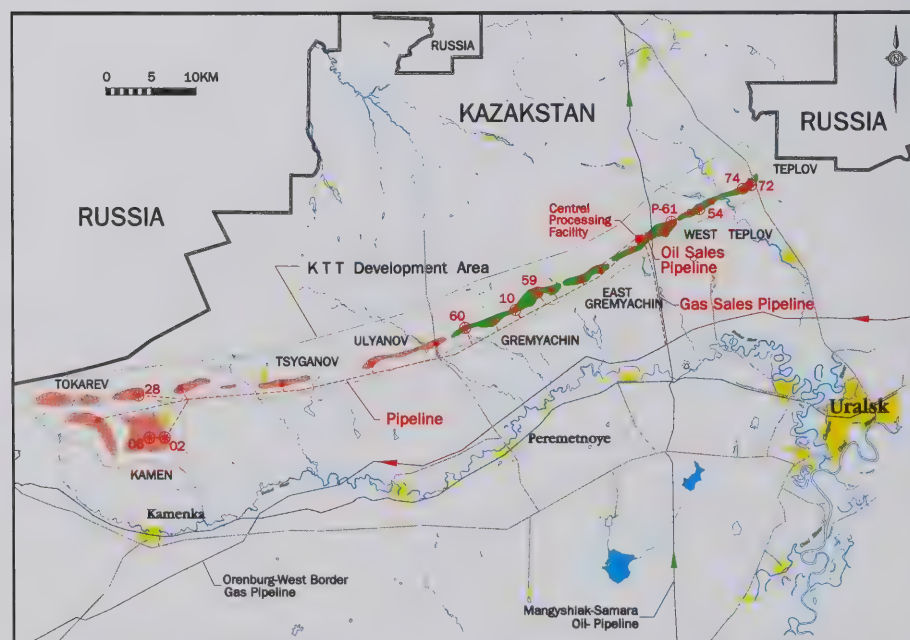
Kamen/Teplov-Tokarev

(continued)



Early Production System

The Central Processing Facility ("CPF") that will ultimately be used to deplete the entire area under the Hydrocarbon Contract is expected to be located on the same site as the EPS. The proposed CPF will initially be designed to process 75 MMCF/D of natural gas and 10,000 BPD of liquids. This phase of the project will include the drilling of new wells and the re-entry of existing wells as required to ensure sufficient deliverability.



Central Processing Facility

Kamen Field

Stepnoi Leopard obtained an Exploration and Appraisal License for the Kamen field as part of the Hydrocarbon Contract. The Hydrocarbon Contract allows the Kamen field reserves and area to be added to the Development License for the TT Trend of fields after the reserves are recognized by the State Committee on Reserves. In 1996, specialists from UNGG were contracted to prepare the reports necessary to file the reserves submission and defend it before the appropriate agencies. The report was completed in September 1996 and successfully defended before the Western Kazakstan Territorial Reserves Committee in October 1996. On December 26, 1996 the report was successfully defended to the State Committee on Reserves and the reserves were recognized as presented. The reserve submission included a gas-in-place of 343 BCF and a condensate-in-place of 4.6 MMBBLS, essentially unchanged from previous estimates. The mineral title for Kamen is currently being prepared and is expected to be in place in the spring of 1997.

Imashev

Snow Leopard has purchased geological and geophysical data for the Imashev area. An exploration license for the project area has been applied for and is currently in the approval review process with the Ministry of Energy and Natural Resources.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Overview

Snow Leopard is engaged in oil and gas exploration and development in Western Canada and in Kazakhstan. The Company's financial results in 1996 reflect an increase in oil and gas sales (net of royalties) of 51% and an increase in funds generated from operations of 211%. Capital expenditures in 1996 were \$6,954,000 in Canada and \$1,971,000 in Kazakhstan.

Significant achievements which contributed to the increased oil and gas sales and funds generated from operations and which will provide for anticipated further growth in 1997 include:

- Raising of net cash proceeds of \$1.6 million from issuance of flow through special warrants.
- Bringing on-stream in October 1996 the Company's first natural gas discovery at Supreme in southwest Saskatchewan. Supreme is owned 100% by the Company.
- A second natural gas discovery at Robsart in southwest Saskatchewan in the fall of 1996. This discovery was placed on-stream in March 1997. Robsart is owned 100% by the Company.
- Acceptance by the State Committee on Reserves in Kazakhstan of the Kamen field reserve submission. This will allow the Kamen field to be designated a development field in accordance with the Hydrocarbon Contract.
- Finalization of arrangements for the Company's first well re-entry in Kazakhstan. Teplov #74 commenced re-entry in January 1997.
- In February 1997 a special warrant issue raised net cash proceeds of approximately \$10 million. Share purchase warrants could add \$11.3 million of additional equity over the next two years.

Operating Results

The Company's comparative consolidated financial results as at and for the two years ended December 31, 1996 are summarized as follows:

	1996 (000's)	1995 (000's)	Change (%)
Oil and gas sales (net of royalties)	1,453	961	51
Funds generated from operations	697	224	211
Net earnings	278	5	5,460
Capital expenditures	8,925	7,358	21
Notes payable	10,889	7,159	52
Long-term debt	3,200	1,500	113
Shareholders equity	6,320	5,113	24
Weighted average number of Class A common shares and Class B subordinate voting shares	19,431	18,785	3

Operating Results

(continued)

Oil and gas sales (net of royalties) for the year ended December 31, 1996 were \$1,453,000 compared with \$961,000 in 1995. This increase of 51% resulted from an increase in natural gas sales from nil in 1995 to approximately 209,000 MCF in 1996, a slight decrease in oil sales from approximately 53,500 BBLs to approximately 51,600 BBLs, a natural gas price of \$2.16 per MCF in 1996, an increase in the price received for oil from \$21.67 per BBL to \$27.00 per BBL and an increase in the effective royalty rate from 19.6% to 21.7%.

Operating expenses in the year ended December 31, 1996 were \$168,000 compared to \$212,000 in 1995. Operating expenses for oil were \$2.29 per BBL in 1996 compared to \$3.54 per BBL in 1995. This decrease is a result of production from wells with high operating costs being discontinued in 1996. Operating expenses of \$0.14 per MCF for natural gas were incurred in 1996.

The operating netback on a barrel of oil equivalent basis increased by 27% to \$17.69 in 1996 as higher oil prices and lower operating expenses offset higher royalties and lower net processing revenue, as follows:

	<u>Oil</u> <u>(\$/BBL)</u>		<u>Gas</u> <u>(\$/MCF)</u>		<u>\$/BOE</u>	
	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>	<u>1996</u>	<u>1995</u>
Price	27.00	21.67	2.16	-	25.46	21.67
Royalties	(6.89)	(4.19)	(0.22)	-	(5.54)	(4.19)
Operating expenses	(2.29)	(3.54)	(0.14)	-	(2.04)	(3.54)
Processing	(0.27)	0.02	-	-	(0.19)	0.02
Operating netback	17.55	13.96	1.80	-	17.69	13.96

Interest expense for the year ended December 31, 1996 was \$125,000 compared to \$90,000 in 1995. This increase is due to the bank loan being in place for the full year ended December 31, 1996 but for only a part of the year ended December 31, 1995, and an increase in the bank loan facility to \$3,500,000 in November 1996.

General and administrative expenses have declined by 21% from \$435,000 to \$344,000.

Depletion and depreciation increased by 94% from \$208,000 in 1995 to \$403,000 in 1996. This increase reflects an increase in sales volumes, in BOE, of 36% and an increase in the depletion rate per BOE from \$2.85 in 1995 to \$4.80 in 1996 as a result of a downward revision of proven oil reserves and the gas plant facilities constructed in 1996.

Taxes recorded in the year ended December 31, 1996 of \$119,000 mainly represent Saskatchewan Corporation Capital Tax for the period January 1, 1995 to December 31, 1996.

Operating Results

(continued)

Funds generated from operations during the year ended December 31, 1996 were \$697,000 compared to \$224,000 in the comparative period in 1995. The increase in funds generated from operations was primarily as a result of natural gas sales commencing in 1996 and an increase in the price per BBL for oil, as shown in the following table:

		<u>000's</u>
Funds generated from operations - 1995	\$	224
Natural gas sales		453
Natural gas royalties		(47)
Increase in selling price of oil		276
Decrease in sales volumes of oil		(41)
Increase in oil royalties		(132)
Decrease in processing revenue		(17)
Decrease in operating expenses		44
Decrease in general and administrative expenses		91
Increase in interest expense		(35)
Increase in current income tax		(119)
Funds generated from operations - 1996	\$	697

Financial Position

As at December 31, 1996, the Company's long-term debt (including notes payable) to equity ratio was 2.2:1 (\$14,089,000 debt compared to \$6,320,000 shareholders' equity). As at December 31, 1996 the Company had drawn \$3,200,000 of a \$3,500,000 demand revolving operation facility from a Canadian bank.

It is expected that capital expenditures required for additional land acquisition, development and exploration in 1997 will be met through a combination of cash flow from operations, net proceeds of approximately \$10 million from the issuance of the special warrants in February 1997 and by increased debt. It is anticipated that there will be increases in the Company's loan facility as a result of the commencement of production at the Company's second gas plant facility in March 1997 and as a result of the third gas plant facility scheduled for the fall of 1997. In addition, outstanding share purchase warrants could add \$11.3 million of additional equity over the next two years.

The Company has agreed to finance the initial capital requirements of Stepnoi. These capital requirements are expected to be financed entirely through funding advances from Snow Leopard until Stepnoi is producing, marketing and transporting liquids and natural gas. The Company estimates that the net capital requirements of Stepnoi are approximately US \$60 million over the next five years. The Company is pursuing international oil and gas companies and international financial institutions to participate in the development of Stepnoi.

Business Risks

The oil and natural gas industry has been subject to considerable price volatility, over which the Company has little control, and a material decline in prices could result in a decrease in the Company's production revenue. The oil and natural gas industry has inherent business risks and there is no assurance that products

Business Risks

(continued)

can continue to be produced at economical rates or that produced reserves will be replaced. Fluctuations in oil and gas prices, currency exchange rates and changes in production volumes are daily risks in the industry. The Company's revenues are partially dependent on the U.S./Canada exchange rate and on liquid transportation, pipeline and marketing agreements. These risks are managed by the Company by employing highly trained and competent management and staff, selecting geographic areas in Canada in which geological prospects are well understood by management, drilling in proximity to transportation facilities and operating prospects to control timing and expenditures.

Operations in Kazakhstan are subject to events beyond the control of the Company. Kazakhstan, as part of the former Union of Soviet Socialist Republics, has undergone considerable political change and is enacting reforms to lessen state control over the political and economic systems with the focus being on a more market oriented economy. There can be no assurance that the economic and political initiatives undertaken will achieve the desired transformation. The legal and constitutional framework within which the Kazakhstan oil industry operates has evolved rapidly in recent years. No assurances can be given that future constitutional, legal or fiscal developments will not adversely affect the operations or profitability of the operations in Kazakhstan. The Kazakhstan operations may be delayed due to a number of factors, including the requirement for approval from government agencies. Such delays would have an impact on the investor's return. The risks faced by the Kazakhstan operations with respect to currency exchange, finance and taxation, are perceived to be greater than the same risks in North America.

Oil and natural gas operations are subject to significant environmental regulation. Environmental legislation provides for restrictions and prohibitions on the release or emission of certain substances which are produced in association with operations. In addition, legislation requires that well and facility sites be abandoned and reclaimed to the satisfaction of government authorities. The Company conducts its operations in a manner which is intended to minimize environmental impact. In 1995, substantial analyses were performed on KTT by environmental specialists. These studies concluded that the project in Kazakhstan poses no material environmental risks and that environmental and ecological risks are commercially controllable.

MANAGEMENT'S REPORT TO SHAREHOLDERS

To Our Shareholders:

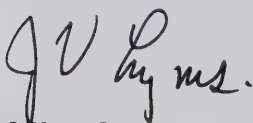
The accompanying consolidated financial statements of Snow Leopard Resources Inc. are the responsibility of management. The financial and operating information presented in this annual report is consistent with that shown in the consolidated financial statements.

The consolidated financial statements have been prepared by management in accordance with the accounting policies disclosed in the notes to the financial statements. When necessary, management has made informed judgements and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the financial statements have been prepared within acceptable limits of materiality and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances.

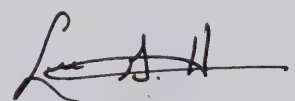
Management maintains appropriate systems of internal controls. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

KPMG, an independent firm of chartered accountants appointed by the shareholders, examines the consolidated financial statements in accordance with generally accepted auditing standards in Canada and provides an independent professional opinion.

The Board of Directors carries out its responsibility for the financial reporting and internal controls principally through its audit committee, the majority of which consists of outside directors. This committee has met with KPMG and management in order to determine if management has fulfilled its responsibilities in the preparation of the consolidated financial statements. The consolidated financial statements have been approved by the Board of Directors on the recommendation of the audit committee.



J. Verne Lyons
President



Lee G. Hobbs
Chief Financial Officer

To the Shareholders of Snow Leopard Resources Inc.

**AUDITORS'
REPORT**

We have audited the consolidated balance sheets of Snow Leopard Resources Inc. as at December 31, 1996 and 1995 and the consolidated statements of operations and changes in cash position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1996 and 1995 and the results of its operations and the changes in its cash position for the years then ended in accordance with generally accepted accounting principles.



Calgary, Canada
February 14, 1997

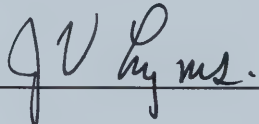
Chartered Accountants

Consolidated Balance Sheets

December 31, 1996 and 1995 (In thousands of Canadian dollars)	1996	1995
Assets		
Current assets:		
Cash and term deposits	\$ 319	\$ 35
Accounts receivable	665	245
Due from related companies	7	382
Prepaid expenses	89	40
	<u>1,080</u>	<u>702</u>
Property and equipment (note 2)	22,866	15,113
	<u>\$ 23,946</u>	<u>\$ 15,815</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,493	\$ 2,015
Current portion of long-term debt (note 4)	525	210
	<u>4,018</u>	<u>2,225</u>
Notes payable (note 3)	10,889	7,159
Long-term debt (note 4)	2,675	1,290
Site restoration provision	44	28
Shareholders' equity:		
Capital stock (note 5)	6,851	3,930
Special warrants (note 5)	793	2,785
	<u>7,644</u>	<u>6,715</u>
Deficit	<u>(1,324)</u>	<u>(1,602)</u>
	6,320	5,113
Subsequent event and commitments (note 9)		
	<u>\$ 23,946</u>	<u>\$ 15,815</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

	Director
	Director

Consolidated Statements of Operations

Years ended December 31, 1996 and 1995
(In thousands of Canadian dollars
except earnings per share)

	1996	1995
Revenue:		
Oil and gas sales (net of royalties)	\$ 1,453	\$ 961
Expenses:		
Operating	168	212
General and administrative	344	435
Interest (note 4)	125	90
Provision for future site restoration	16	11
Depletion and depreciation	403	208
	1,056	956
Net earnings before income taxes	397	5
Income taxes (note 6)	119	-
Net earnings	278	5
Deficit, beginning of year	(1,602)	(1,607)
Deficit, end of year	\$ (1,324)	\$ (1,602)
Earnings per share (note 7)	\$ 0.01	\$ 0.00

See accompanying notes to financial statements.

Consolidated Statements of Changes in Cash Position

Years ended December 31, 1996 and 1995
(In thousands of Canadian dollars)

	1996	1995
Cash provided by (used for):		
Operations:		
Net earnings	\$ 278	\$ 5
Items not involving cash:		
Provision for future site restoration	16	11
Depletion and depreciation	403	208
Funds generated from operations	697	224
Changes in non-cash working capital	1,009	(598)
	1,706	(374)
Financing:		
Issue of special warrants	1,562	2,000
Issue of Class A common shares	-	103
Issue of Class B subordinate voting shares	136	250
Long-term debt	1,700	1,500
Notes payable	3,730	3,900
Due from related companies	375	(382)
	7,503	7,371
Investments:		
Property and equipment	(8,925)	(7,358)
Increase (decrease) in cash and term deposits	284	(361)
Cash and term deposits, beginning of year	35	396
Cash and term deposits, end of year	\$ 319	\$ 35

See accompanying notes to financial statements.

Snow Leopard Resources Inc. (the "Company") is incorporated under the Business Corporations Act (Alberta). Its principal business activity is petroleum and natural gas exploration and development.

1. Significant accounting policies:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of the Company, together with the accounts of its wholly owned subsidiaries.

(b) Petroleum and natural gas operations:

The Company follows the full cost method of accounting under which all costs related to the exploration for and development of petroleum and natural gas are capitalized by cost centre, Canada and Kazakhstan. Costs include land acquisition, geological and geophysical expenses, carrying charges on non-productive properties, costs of drilling both productive and non-productive wells, production equipment and overhead charges directly related to exploration and development activities.

Sales of petroleum and natural gas properties are accounted for as adjustments to capitalized costs with no gain or loss recognized, unless such adjustments would significantly alter the rate of depletion.

The costs related to a cost centre from which there is production, together with the costs of related production equipment, are depleted and depreciated on the unit-of-production method based on the estimated gross proven reserves of each cost centre as determined by independent engineers. Natural gas reserves and production are converted into equivalent barrels of oil based upon the relative energy content of each product.

The capitalized costs less accumulated depletion and depreciation in each cost centre are limited to an amount equal to the future net revenues from proven reserves (based on petroleum and natural gas prices and costs, and income tax legislation in effect at the balance sheet date) plus the cost (net of impairment) of unproved properties.

The total capitalized costs of all cost centres less accumulated depletion and depreciation and the site restoration provision are further limited to future net revenue from proven reserves (based on petroleum and natural gas prices and costs, and income tax legislation in effect at the balance sheet date) plus the cost (net of impairments) of unproved properties less estimated future site restoration costs, general and administrative expenses, interest costs and income taxes.

The costs related to cost centres from which there has been no commercial production are not subject to depletion until commercial production commences. The capitalized costs are periodically assessed to determine whether it is likely such costs will be recovered in the future. To the extent there are costs which are unlikely to be recovered in the future, they are written off.

Exploration and production activities of the Company are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

Notes to Consolidated Financial Statements

(continued)

1. Significant accounting policies (continued):

(c) Site restoration costs:

Estimated future site restoration costs are provided for based on the unit-of-production method. Site restoration expenditures are charged to the accumulated provision account as incurred.

(d) Foreign currency translation:

The Company follows the temporal method when translating foreign currency transactions and the financial statements of integrated foreign subsidiaries. Under this method:

- (i) monetary items are translated at the rates of exchange prevailing at the balance sheet date;
- (ii) non-monetary items are translated at historic exchange rates; and
- (iii) revenue and expenses (other than depreciation) are translated at average rates of exchange during the year.

The resulting gains or losses are credited or charged to earnings except for these relating to monetary items having a fixed life which are deferred and amortized over the life of the particular item.

2. Property and equipment:

	Cost	Accumulated depletion and depreciation	1996 Net book value	1995 Net book value
Canada:				
Petroleum and natural gas properties	\$ 13,991	\$ 2,380	\$ 11,611	\$ 5,812
Furniture and fixtures	251	131	120	137
Kazakstan:				
Petroleum and natural gas rights	11,135	-	11,135	9,164
	\$ 25,377	\$ 2,511	\$ 22,866	\$ 15,113

Cost of petroleum and natural gas properties in Canada is net of the estimated value of income tax deductions renounced to shareholders of \$5,532,991 (1995 - \$4,764,199). Petroleum and natural gas properties of approximately \$3,000,000 (1995 - \$2,600,000) relating to unproved properties in Canada and Kazakstan costs of \$11,135,000 (1995 - \$9,164,000) have been excluded from depletion and depreciation calculations. Amortization of Kazakstan petroleum and natural gas rights costs will commence with commercial production.

3. Notes payable:

The notes payable are to shareholders or companies controlled by shareholders and are unsecured, non-interest bearing and without fixed repayment terms (See Note 9 (a)).

(continued)

4. Long-term debt:

	1996	1995
Bank loan	\$ 3,200	\$ 1,500
Less: current portion	(525)	(210)
	<u>\$ 2,675</u>	<u>\$ 1,290</u>

The bank loan bears interest at prime plus 1%. The total loan facility is \$3,500,000, reducing by \$75,000 per month commencing February 1, 1997. The loan is secured by a debenture carrying a fixed charge on specified property of the Company and a floating charge on the balance of the assets of the Company. Principal payments required in cash over the next five years are as follows:

1997	\$ 525,000
1998	\$ 900,000
1999	\$ 900,000
2000	\$ 875,000

Interest expense includes interest on long-term debt of \$112,715 (1995 - \$69,666).

5. Capital stock:

(a) Authorized:

Unlimited Class A common voting shares without nominal or par value
Unlimited Class B subordinate voting shares without nominal or par value

(b) The Class A common and Class B subordinate shares rank equally one with the other except that each Class A common share carries twenty votes and each Class B subordinate share carries one vote. The Class A common shares are convertible, at the option of the holder, into Class B subordinate shares on a one-for-one basis.

(c) Issued and outstanding:

Class A Common Shares	Number	Consideration
December 31, 1994	18,463,400	\$ 2,463
Issued for cash	17,600	114
Share issue costs	-	(11)
December 31, 1995 and December 31, 1996	18,481,000	\$ 2,566

Class B Subordinate Shares	Number	Consideration
December 31, 1994	307,700	\$ 1,114
Issued in exchange for reduction of accounts payable	50,000	250
December 31, 1995	357,700	1,364
Issued on exercise of special warrants	861,600	2,785
Issued on exercise of stock options	115,000	1
Issued for cash	60,000	135
December 31, 1996	1,394,300	\$ 4,285

Notes to Consolidated Financial Statements

(continued)

(Tabular amounts in thousands of Canadian dollars.)

5. Capital stock (continued):

Special Warrants	Number	Consideration
December 31, 1994	461,600	\$ 1,671
Issued - Class B subordinate shares	400,000	1,114
December 31, 1995	861,600	2,785
Exercised - Class B subordinate shares	(861,600)	(2,785)
Issued - Class A common shares	1,379,000	793
December 31, 1996	1,379,000	\$ 793

During 1995, the Company issued 400,000 flow through special warrants for proceeds of \$2,000,000. These warrants were converted to 400,000 Class B subordinate shares on August 1, 1996. The proceeds from the issuance of the warrants and the cost of the corresponding property and equipment were reduced by \$886,000, being the estimated value of the related income tax deductions.

During 1996, the Company issued 1,379,000 flow through special warrants for proceeds of \$1,562,348, net of issue costs of \$161,402. Each warrant is convertible into one Class A common share on or before September 30, 1997. The proceeds from the issuance of warrants and the cost of the corresponding property and equipment were reduced by \$768,792, being the estimated value of the related income tax deductions.

(d) Shares reserved:

At December 31, 1996, 1,379,000 Class A common shares were reserved for issuance pursuant to outstanding special warrants.

The Company has issued 118,000 share purchase warrants to acquire 118,000 Class B subordinate shares for US \$5.00 per share on or before September 28, 1998.

The Company has an approved stock option plan under which the aggregate number of Class A common shares and Class B subordinate shares reserved may not exceed 10% of the combined outstanding number of shares. Options for 276,300 Class A common shares were granted in 1996. These options expire on December 30, 2001 and have an exercise price of \$1.25 per share. Subsequent to December 31, 1996, options for 183,150 Class A common shares were granted. These options expire on January 27, 2002 and have an exercise price of \$1.30 per share.

Pursuant to the issue of 12,731,846 special warrants subsequent to December 31, 1996 (see Note 9 (a)) the Company has reserved 12,731,846 Class A common shares for issue upon exercise of the special warrants on or before December 29, 1997, 6,365,923 Class A common shares for issue upon exercise of share purchase warrants at \$1.60 per share on or before July 4, 1999 and 850,108 Class A common shares for issue upon exercise of share purchase warrants at \$1.30 per share on or before February 3, 1999.

6. Income taxes:

The income tax expense differs from the income taxes which would result had the Company applied the statutory tax rate of 44.6% (1995 - 44.3%) to earnings before taxes. The main differences between expected and actual tax provisions are:

	1996	1995
Computed income tax expense	\$ 177	\$ 2
Add (deduct):		
Non-deductible crown payments	196	92
Resource allowance	(144)	(59)
Differences arising between assigned tax and recorded book value	53	31
Recognition of previously unrecognized tax benefit	(258)	(49)
Capital taxes	119	-
Other	(24)	(17)
Income tax expense	\$ 119	\$ -

Property and equipment with a net book value of \$3,915,000 (1995 - \$2,667,000) has no cost basis for income tax purposes. These differences arise as a result of the issuance of flow through shares and special warrants.

7. Per share calculations:

Earnings per share are based on the weighted average number of Class A common shares and Class B subordinate shares outstanding during the year of 19,430,727 (1995 - 18,785,387).

8. Related company transactions:

During 1996, a company which has common directors with the Company performed oil and gas services for a fee of \$278,222, which amount is included in accounts payable and accrued liabilities at December 31, 1996. These services were provided on the same basis as services to unrelated companies.

9. Subsequent event and commitments:

- (a) Subsequent to December 31, 1996 the Company issued 12,731,846 special warrants for gross proceeds of \$16,551,400. Issue costs, including underwriter's commissions, are expected to be approximately \$1,150,000. In addition, 850,108 share purchase warrants were issued to the underwriter, with each share purchase warrant exercisable into one Class A common share at \$1.30 per share for a period of two years. Each special warrant entitles the holder to acquire one Class A common share, for no additional consideration, and one-half share purchase warrant. Each whole share purchase warrant is exercisable into one Class A common share at \$1.60 per share for a period of two years. Major shareholders and companies controlled by these shareholders exchanged \$5,500,000 of notes payable (see Note 3) for 4,230,769 of the special warrants issued.
- (b) In 1995 the Company entered into agreements through its subsidiary companies with two state holding companies and the Government of Kazakhstan to appraise, develop, produce and sell hydrocarbons in Kazakhstan. In accordance with these agreements Snow Leopard is committed to contributing the following: (i) US \$7,000,000 for appraisal and development over a two year period commencing October 2, 1995. All amounts contributed for appraisal and development are recoverable

Notes to Consolidated Financial Statements

(continued)

Notes to Consolidated Financial Statements

(continued)

by Snow Leopard from future cash flows from Kazakhstan operations. As at December 31, 1996, subject to certain approvals, approximately US \$3,300,000 (December 31, 1995 - US \$2,300,000) of this commitment had been met. These amounts are included in Kazakhstan petroleum and natural gas rights (see Note 2); (ii) US \$1,000,000 over a four year period commencing August 1996 for social and infrastructure projects. All amounts contributed for social and infrastructure projects are recoverable by Snow Leopard from future cash flows from Kazakhstan operations. As at December 31, 1996 approximately US \$11,000 of this commitment was met; and (iii) US \$250,000 for the development of a geological information data base by April 2, 1997, conditional upon certain events occurring. As at December 31, 1996 no amounts had been paid or were required to be paid under this commitment.

Under an agreement with the Ministry of Geology of the Republic of Kazakhstan, Snow Leopard is committed to a payment of US \$1,152,400 for the purchase of geological data payable when commercial operations commence. As at December 31, 1996 a prepayment of US \$300,000 had been made. This amount is included in Kazakhstan petroleum and natural gas rights (see Note 2).

CORPORATE INFORMATION

Directors

J. Verne Lyons *
President, Director and Chairman of
the Board
Calgary, Alberta

Lauchlin A. Lyons
Executive Vice-President and Director
Calgary, Alberta

David W. Ross
Corporate Secretary and Director
Calgary, Alberta

Dale M. Simmons *
Director
Calgary, Alberta

Jack T. Wood *
Director
Calgary, Alberta

**audit committee member*

Management

J. Verne Lyons
President

Lauchlin A. Lyons
Executive Vice-President

George N. Heal
Manager, Canadian Operations

Lee G. Hobbs
Chief Financial Officer

Brian G. Johnston
General Manager, International

Sandra L. LeBlanc
Director, International Projects

Subsidiary Companies

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**Snow Leopard Resources
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Limassol (205), Cyprus

**Stepnoi Leopard, Ltd.
(50% owned)**

Executive Board

J. Verne Lyons, Chairman
T. Naushiev, Vice-Chairman
O. Akchulakov
Y. Biskaliev
N. Ermakov
L. Hobbs
B. Johnston
S. LeBlanc

General Director

B. Johnston

Deputy General Director

Z. Djoukataev

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Banker

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Legal Counsel

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SNOW LEOPARD RESOURCES INC.

**1996
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